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ABSTRACT

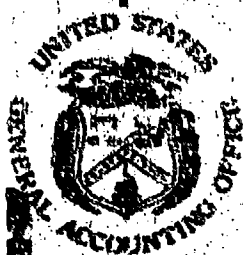
Reported is a review by the U. S. General Accounting Office of procedures and requirements related to grants totaling \$2.9 million to the National Reading Center Foundation by the Office of Education (OE), Department of Health, Education, and Welfare. Costs totaling \$305,300 incurred during the initial grant period were deemed unallowable. Problems related to unallowable costs and to conflicts over roles and responsibilities of contracting agencies could have been minimized by pre-grant outlining by OE of activities and objectives of the Right to Read effort. Early OE delineation of program authority and grantee responsibility would have provide for a more harmonious and effective OE-Foundation relationship. The oral agreement between OE and the Foundation to implement a 10-year plan for the Right to Read program should be committed to writing.

(Author/RD)

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& WELFARE

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Examination Into Grants To National Reading Center Foundation

D-164037(1)

Office of Education

Department of Health, Education,
and Welfare

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

CS 000 051

APRIL 4, 1972

ED 064677



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(1)

Dear Senator Proxmire:

This is our report on our examination into grants awarded by the Office of Education, Department of Health, Education, and Welfare, to the National Reading Center Foundation to assist in the Right to Read effort. Our examination was made pursuant to your request of July 14, 1971.

The Department of Health, Education, and Welfare; the National Reading Center Foundation; and other parties mentioned herein have not been given an opportunity to formally comment on this report.

A similar report on this subject is being released on this date pursuant to a request from another member of Congress. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made concerning the contents of the report.

Sincerely yours,

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General
of the United States

The Honorable William Proxmire
United States Senate

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William Proxmire to the Comptroller General

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ABBREVIATIONS

- GAO General Accounting Office
- HEW Department of Health, Education, and Welfare
- OE Office of Education

COMPTROLLER GENERAL'S
REPORT TO THE
HONORABLE WILLIAM PROXMIRE
UNITED STATES SENATE

EXAMINATION INTO GRANTS TO
NATIONAL READING CENTER FOUNDATION
Office of Education
Department of Health, Education,
and Welfare B-164031(1)

D I G E S T

WHY THE REVIEW WAS MADE

On July 31, 1970, the President announced the formation of the National Reading Council to direct the Right to Read program--an effort to enable every American to achieve during the 1970's a reading level commensurate with his needs. The Council, composed of persons from many different fields, was to work with the Office of Education (OE), Department of Health, Education, and Welfare (HEW), and with public and private organizations, as well as professional educators and others, to achieve this goal.

On August 12, 1970, OE awarded a \$1.5 million grant to the National Reading Center Foundation, the operating arm of the Council, to assist in the Right to Read effort. The grant period was August 1, 1970, through July 31, 1971. A second grant, in the amount of \$1.4 million, was awarded on October 19, 1971, and the grant period was extended through July 31, 1972.

At the request of Senator William Proxmire, the General Accounting Office (GAO) reviewed HEW's grant application procedures and requirements, pertinent records relating to the initial grant, use of the initial grant funds, and certain aspects of the second grant.

HEW, the Foundation, and other parties mentioned in the report have not been given an opportunity to formally examine and comment on this report, although the matters have been discussed with Foundation and OE officials.

FINDINGS AND CONCLUSIONS

Procedures followed in grant award

The procedures followed in the award of the initial grant to the Foundation were inadequate to reasonably ensure the operation of a workable program.

The grant was authorized pursuant to the provisions of the Cooperative Research Act. Two non-Government consultants reviewed the grant proposal, as required by the act. Both consultants told GAO that they had recommended acceptance of the proposal because of the need for a national reading program. They both commented on the lack of detail in the proposal and said that they believed that it did not provide sufficient information on how the program was to be implemented.

The proposal submitted with the Foundation's application consisted of an unstructured list of tasks or items to be accomplished and contained no firm set of objectives or scope of work. (See p. 8.)

The grant agreement included a requirement that by December 31, 1970, the Foundation prepare and submit a 10-year plan for the Right to Read effort. On January 29, 1971, the Executive Director of the Foundation, who had been appointed that same month, submitted a plan. The Commissioner of Education, however, rejected the Executive Director's 10-year plan in March 1971. The Commissioner waived the grant requirement for a 10-year plan since a joint OE-Council task force, which was formed in mid-January 1971, was preparing a unified plan at that time.

The joint task force prepared a unified 10-year plan in May 1971. No documentation was made available to GAO, however, showing that OE, the Council, and the Foundation had agreed mutually to implement the plan. On February 2, 1972, OE's Director of the Right to Read program told GAO that OE and the Foundation had agreed orally to use the plan as a basis for the direction of future Right to Read efforts. (See p. 10.)

Unallowable grant costs incurred

OE determined that costs totaling \$305,300, incurred by the Foundation during the initial grant period, were unallowable under the terms and conditions of the grant and requested the Foundation to reimburse the Federal Government for the amount. The funds were used for

- professional fees and construction costs of \$176,900 related to the Foundation's rented space (see pp. 11 and 12),
- a contract for \$9,300 awarded prior to the initial grant award (see p. 12),
- public relations expenditures of \$113,300 incurred without OE approval (see p. 13), and
- an excess salary of \$5,800 for the Foundation's Executive Director during his 7-month tenure in the initial grant period (see p. 13.)

OE may allow certain of these costs, however, on the basis that they could have been allowed if prior approval had been obtained.

Action taken to provide greater control over grantee expenditures

OE included provisions in the second grant agreement which required the foundation to

- submit quarterly fiscal reports on proposed expenditures,
- provide evidence of competition on proposed contract awards, and
- obtain written approval for certain budget changes.

In addition, OE has taken action to preclude the use of grant funds for lease of space in excess of the Foundation's needs and for rental of an automobile--expenditures which were allowed previously. (See p. 17.)

Conflict over roles and responsibilities

A report prepared by a small non-Government task force in January 1970 included a proposed organizational structure for carrying out the Right to Read effort, but it showed no direct lines of responsibility between OE and the Council or the Foundation. Concern over this organizational structure was expressed to the Commissioner of Education by OE Right to Read officials, but no action was taken. It was not until July 1971--the last month of the initial grant period--that the following agreements were reached.

- The mission of the Council and the Foundation would be to generate interest among private noneducational agencies in the Right to Read effort and to enlist their participation in, endorsement of, and support for, Right to Read activities.
- OE, the Council, and the Foundation would participate jointly in developing reading renewal centers which would work with schools to improve their reading programs.
- OE's Right to Read effort would focus on developing programs for under-achieving children and functionally illiterate adults and on working with public and nonpublic schools to improve their reading programs.
- OE's Director of the Right to Read program would be made an ex officio member of the Council. (See p. 20.)

Accomplishments of National Reading Center Foundation

During the initial grant period, the Foundation initiated a tutor-training program to train neighborhood volunteers in methods of teaching reading skills. About 2,000 tutors were trained in the District of Columbia, Iowa, and Ohio to assist teachers in classrooms during the 1971-72 school year. The Foundation's staff traveled extensively in an effort to relate the tutor-training program to established organizations and to stimulate interest in the Right to Read program.

The Foundation plans to train 2,000 tutor trainers in 20 States by the end of fiscal year 1972. Each of these tutor trainers in turn will train 100 tutors and thereby will provide an estimated 200,000 tutors for schools in September 1972. A similar program is planned for the remaining 30 States to provide 300,000 more tutors in fiscal year 1973.

During the initial grant period, a series of 21 brochures, a newsletter, and 12 newspaper articles were prepared to encourage reading, to make information available to parents, and to list sources for obtaining reading help. Further the Foundation sponsored about six business and industry seminars to generate interest in the Right to Read program. (See p. 24.)

Conclusions

The problems relating to the unallowable grant costs and the conflict over the roles and responsibilities of OE, the Council, and the Foundation could have been minimized if, prior to the award of the initial grant, OE had outlined the activities and objectives of the Right to Read effort to provide a framework in which the Foundation could orient its program.

Further, delineation by OE of its program authority and of the grantee's responsibilities early in the initial grant period would have provided for a more harmonious and effective relationship between OE and the Foundation.

Although OE and the Foundation have agreed orally to implement a 10-year plan for the Right to Read effort, GAO believes that such an agreement by OE, the Council, and the Foundation should be in writing to help avoid the types of problems experienced under the initial grant. (See p. 26.)

CHAPTER 1

INTRODUCTION AND SCOPE

In response to a request dated July 14, 1971 (see app. II), from Senator William Proxmire, we reviewed two grants made by the Office of Education, Department of Health, Education, and Welfare, to the National Reading Center Foundation, a nonprofit corporation formed to provide the staff and facilities to implement the Nation's Right to Read program. The objective of the Right to Read program is to enable every American to achieve during the 1970's a reading level commensurate with his needs.

We reviewed HEW grant application procedures and requirements, pertinent records relating to the initial grant, use of the initial grant funds by the Foundation, and certain aspects of the second grant which was to continue the Foundation's program. We also interviewed HEW and Foundation officials.

Our examination into the use of grant funds included verifying and determining the propriety of about 60 percent of the expenditures of \$1,235,840 made under the initial grant. These expenditures were for furniture and fixtures, equipment, salaries, consultant fees, travel, rent, promotional materials, research, and accounting and legal services. Our review was made at the headquarters of HEW and the Foundation in Washington, D.C. Appendix I lists the expenditures made by the Foundation during the initial grant period.

On July 31, 1970, the President announced the formation of a National Reading Council to work closely with public and private organizations, as well as professional educators and others, to strengthen reading programs and to foster innovations in reading. The President appointed the Chairman of the Council, and the Secretary of HEW appointed persons from many different fields--including education, business and industry, government, labor, the arts, entertainment, sports, communications, and science--to serve as Council members.

Initially 37 members were appointed to the Council. As of December 1971 the Council had grown to 60 members who serve without compensation other than compensation for travel and related expenses. The major tasks given the Council were to create national recognition of the gravity of the reading-deficiency problem and to work with OE and public and private organizations, as well as professional educators and others, to eliminate illiteracy.

In September 1969, prior to the formation of the Council, the Commissioner of Education announced the initiation of a program to improve the Nation's reading skills. In November 1969 OE met with representatives of private industry and other interested citizens to obtain ideas for the implementation of this effort. In December 1969 a small non-Government task force was formed by the Commissioner of Education to draft a 10-year plan with some specific objectives for the program. The task force submitted a report to OE in February 1970. The report, however, did not include a 10-year plan.

On May 25, 1970, OE awarded an \$81,000 fixed-price contract to Pollmar Affiliates, Inc., of Albany, New York, to provide support during the establishment and early operation of the Council. This support was to include arranging the first Council meeting, developing a budget and staffing pattern for fiscal year 1971, conducting a search for permanent Council staff, establishing a public information program, and operating an information center.

The Foundation was incorporated on July 27, 1970, as a nonprofit organization under the laws of the State of Delaware to function as the operating arm of the Council and to receive the Federal grant. As of December 1971 the Foundation had 24 employees. Its Board of Directors, composed of 27 Council members, establishes policies and approves the Foundation's business and legal actions.

On August 12, 1970, OE's Office of Priority Management made a grant of \$1,529,535 to the Foundation for the period August 1, 1970, through July 31, 1971. A second grant of \$1,416,433 was made on October 19, 1971, and the grant period was extended to July 31, 1972. Among the tasks listed in the Foundation's proposal for the initial grant were to

- make effective use of the resources and capabilities of the communications media,
- assist in establishing reading achievement standards,
- enlist and train volunteers to assist the professional educators in teaching children to read, and
- maintain an information program for developing public commitment to the Right to Read goal.

In addition to performing the above tasks, under the second grant the Foundation is to arouse interest and assist efforts of organizations and business and industry in creating and coordinating reading programs, to encourage programs for stimulating family interest in reading, and to act as ombudsman for reading concerns in the private sector.

CHAPTER 2

PROCEDURES FOLLOWED IN AWARD OF INITIAL GRANT TO NATIONAL READING CENTER FOUNDATION

The procedures followed by OE in the award of the initial grant to the Foundation were not adequate to reasonably ensure the operation of a workable program.

The grant of \$1.5 million to the Foundation was made pursuant to section 2(a) of the Cooperative Research Act, as amended (20 U.S.C. 331), which authorizes the Commissioner of Education to make grants or enter into contracts for educational research, surveys and demonstrations, and dissemination of information derived from educational research. Although the Foundation had no prior research experience, the act does not require an applicant to have such experience to receive a grant.

HEW guidelines for applicants seeking financial assistance under the Cooperative Research Act provide that grants and contracts under the act may be awarded in response to both solicited and unsolicited proposals. The guidelines state that proposals may be solicited in specific areas to meet research and development goals. According to the guidelines all proposals for new and continued funding are to be assessed in terms of their promise for meeting stated objectives, the educational significance of those objectives, and their economic efficiency.

The application format and procedures for seeking financial assistance under the act have been standardized. Application is made by submitting a standard formal proposal, accompanied by an application form, to HEW. The act provides that no grant or contract be made until a panel of non-Government specialists have reviewed the proposal with regard to the soundness of its design, the possibilities of its being productive, its relationship to similar programs which have been completed or which are in progress, and the adequacy of the applicant's resources.

The responsible OE grants officer told us that the Foundation submitted an undated proposal for a 2-year, fixed-price contract sometime during July 1970; however, OE would not commit funds for a 2-year period. He said that the Right to Read program was oriented more to a grant award than to a fixed-price contract because of the research and development nature of the program.

To expedite the funding of the program, the OE Director of the Right to Read program assisted the Foundation in preparing the application to be submitted with its proposal. The application form, however, contained only the title of the proposal, the proposal ending date, the name of the Chairman of the Council as the project director, and the name and address of the Foundation. The application was not signed or dated.

The proposal, which was resubmitted with the grant application form, consisted of an unstructured list of tasks to be accomplished and contained no firm set of objectives or scope of work.

Two non-Government consultants reviewed the proposal submitted by the Foundation. Because records of these reviews were not available, we interviewed the consultants to obtain their comments on the proposal. Both consultants told us that they had recommended acceptance of the proposal because of the need for a national reading program. They both commented on the lack of detail in the proposal and said that they believed that it did not provide sufficient information on how the program was to be implemented.

Although efforts to crystallize the objectives of the Right to Read program were made by the task force formed in December 1969 and by OE in another 10-year plan prepared early in 1970, definitive objectives had not been established at the time the program was initiated.

OE instructions for preparing a proposal to be funded under the Cooperative Research Act state that, although many proposals require 3 to 4 months to process, larger or more complicated proposals require an even longer time. The grant was awarded to the Foundation on August 12, 1970--16 days after the Foundation was formed.

REQUIREMENT INCLUDED IN GRANT AGREEMENT

The grant agreement, including the grantee's proposal which had been incorporated into the grant agreement, required the grantee to complete a comprehensive 10-year plan having specific objectives leading to the accomplishment of the national Right to Read goal. The plan was to be prepared and submitted by December 31, 1970, together with a fully justified budget based on the plan. Both the plan and the budget were to be approved by the Secretary of HEW.

On January 1, 1971, the appointment of the Executive Director of the Foundation became effective. The Executive Director prepared a 10-year plan which was submitted to the Commissioner of Education on January 29, 1971. Prior to this date, in mid-January 1971, a joint OE-Council task force was formed to develop a unified plan which would be agreeable to all parties. (See ch. 4.)

On March 5, 1971, the Commissioner of Education rejected the Executive Director's 10-year plan on the basis that it did not constitute a total plan. Because a joint OE-Council task force was developing a unified plan at that time, the Commissioner of Education waived the grant requirement for a 10-year plan.

The joint task force prepared a unified 10-year plan in May 1971. The files made available to us, however, contained no documentation that OE, the Council, and the Foundation had agreed mutually to implement the plan. On February 2, 1972, OE's Director of the Right to Read program told us that OE and the Foundation had agreed orally to use the plan as a basis for the direction of future Right to Read efforts.

CHAPTER 3

UNALLOWABLE GRANT COSTS INCURRED

In a letter dated June 25, 1971, OE informed the Foundation that costs totaling \$305,300, incurred during the initial grant period, were unallowable under the terms and conditions of the grant. This letter updated the amount of unallowable costs that initially were described in an OE letter to the Foundation, dated May 28, 1971. OE was not able to identify the unallowable costs earlier in the grant period because expenditure reports submitted by the Foundation did not contain adequate cost information. Attempts by OE officials to obtain detailed expenditure reports from the Foundation were not successful until May 1971.

The unallowable costs identified by OE and the Foundation's explanations for their being incurred are described below.

ARCHITECTURAL AND PLANNING COSTS

The Foundation incurred architectural and planning costs amounting to \$120,956 for a demonstration center of modern reading methods and materials to be located at its headquarters in Washington, D.C. In its May 28, 1971, letter, OE stated that it had not authorized any expenditure of Federal funds in connection with this demonstration center and that the operation of a demonstration center was beyond the scope of the Foundation's activities.

The Foundation contended that since its proposal, which had been incorporated into the grant agreement, envisioned the establishment of a laboratory and audio-visual rooms at the center, establishment of a demonstration center would not alter the objectives outlined in the proposal.

The Foundation's contention was not supported by the budget submitted with its proposal. The budget did not include any line items for expenditures in connection with the demonstration center, and, according to an OE official, OE had not been informed that the Foundation planned to use grant funds for such a center.

RENOVATION AND SITE IMPROVEMENT COSTS

OE regarded renovation and site improvement costs of \$55,944 to be capital expenditures which materially increased the value and useful life of the building in which the Foundation had its headquarters. In the HEW Grants Administration Manual, the section entitled "Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts With Non-Profit Institutions," which was incorporated by reference into the grant agreement, states that capital expenditures are not allowable costs unless provided for in the grant agreement. Such expenditures were not provided for in the Foundation's grant agreement.

The Foundation stated that the renovation and site improvement costs were necessary to provide facilities suitable to its operation and did not alter the objectives of the grant because the proposal envisioned the establishment of offices, conference rooms, a laboratory, audio-visual rooms, and a library. The Foundation contended that, although it had not obtained approval from OE for changes in the amounts of line items in its project budget to fund the site improvements, the absence of such approval should not have precluded these costs if they were reasonable and within the scope of the grant.

CONTRACT AWARDED PRIOR TO GRANT AWARD

OE disallowed a \$9,300 contract awarded on July 20, 1970, to Syracuse University by the task force formed in December 1969. The contract, which had been paid for with grant funds, was disallowed because it had been awarded prior to the date of the grant to the Foundation. The contract was awarded to develop plans for identifying and analyzing reading deficiencies.

The Foundation contended that the objective of the contract was related directly to the scope of the work and purposes of the Foundation and that the studies generated under the contract were related directly to the Right to Read program objectives. OE disallowed the cost of this contract not on the basis of the nature of the work but because the contractual agreement had been entered into prior to the date of the grant award without prior written approval of the OE grants officer.

PUBLIC RELATIONS EXPENDITURES
INCURRED WITHOUT OE APPROVAL

OE disallowed public relations expenditures of \$113,300 incurred under a contract awarded by the Foundation on October 26, 1970, to Priorities Research, Inc., because its award had not been approved by OE. The grant terms and conditions require that proposed contracts be submitted to the OE grants officer and be approved by him in writing.

The Foundation contended that its proposal contemplated specifically the use of public relations services as a vital tool in the performance of its function and that attempts to obtain public commitment to the national reading program would fail without the use of expert advice and counseling on reaching the public. Therefore the Foundation believed that these expenses should not have been disallowed merely because of the lack of technical approval.

PART OF EXECUTIVE DIRECTOR'S SALARY
DISALLOWED

OE disallowed \$5,800 of the salary paid to the Foundation's Executive Director during the initial grant period. This amount was based on the fact that the Executive Director's \$50,000 annual salary was \$10,000 in excess of the amount OE considered allowable. The excess \$10,000 was prorated over the Executive Director's 7-month tenure during the initial grant period. OE's basis for the disallowance was that the highest salary paid under any other OE grant or contract was \$40,000. With respect to compensation for personal services, HEW's Grants Administration Manual states that compensation paid should be comparable to that paid for similar work in the labor markets in which the institution competes for the kind of employees involved.

The Foundation contended that the salary was reasonable on the bases of the qualifications of the Executive Director and the salary he earned in his prior position (\$46,000), the salaries paid to others in similar positions, the scope of the project, and the services rendered.

The budget submitted with the Foundation's proposal for the initial grant included a line item of \$29,800 for

the Executive Director's salary. The grant agreement did not, however, preclude the Foundation from transferring funds among the various budget categories, except for increases in the travel, equipment, and alteration categories which required prior written approval of the OE grants officer. The initial grant agreement contained no limitations on the amount of funds that could be transferred among budget categories. The second grant agreement, however, includes a provision that no transfer of funds over \$1,000 be made without prior written approval of the OE grants officer.

To verify OE's position on the maximum salaries paid under OE grants and contracts, we reviewed the salaries paid to directors of OE educational laboratories and research and development centers for the fiscal year ended October 31, 1971. None of the directors' annual salaries had exceeded \$40,000. Although the Executive Director has a contract with the Foundation for a \$50,000 annual salary, he told us that he had received no assurance from the Council or the Foundation that the \$10,000 reduction in his salary from grant funds would be paid from other sources of funds.

FLOOR SPACE RENTED BY FOUNDATION

In a May 28, 1971, letter to the Foundation, OE stated that the Foundation had leased more floor space than was necessary for its needs. OE did not claim any unallowable costs relating to the rental of the excess space but did request the Foundation to reduce its occupancy from two floors to one. The Foundation stated in its proposal that 10,000 to 12,000 square feet of floor space were needed for staff offices, conference rooms, and demonstration-observation purposes.

In response to OE's letter, the Foundation stated that in August 1970 it determined that the space contemplated for rental was inadequate to carry out the purposes set forth in the proposal and that in September 1970 it entered into a 5-year lease for two floors (about 22,000 square feet) to provide the necessary space. The lease was not submitted to OE for approval. The Foundation planned to sublease space not used. The Foundation concluded that, because of the broad objectives of the proposal, its actions

to arrange for necessary floor space constituted reasonably prudent planning.

In selecting a suitable location for the Foundation's offices, the Chairman of the Council considered the following office sites, in addition to the 1776 Massachusetts Avenue NW. location finally selected.

5225 Wisconsin Avenue NW.
1731 K Street NW.
2139 Wisconsin Avenue NW.
1623 Massachusetts Avenue NW.

The Executive Director of the Foundation told us that the 1776 Massachusetts Avenue NW. location had been selected primarily because of its proximity to the educational community and that its rental rate of \$6.25 a square foot was comparable to the rental rates for the other four sites considered.

Because we could find no records on the rental rates of the other four sites, we contacted the real estate agency which had assisted in locating the sites. The agent who had handled this matter said that he had not maintained records but that he recalled that the rental rates of the other four sites were about \$6 a square foot and that the rental rate of the selected site had been slightly higher because it was a new building. He said also that the 1776 Massachusetts Avenue NW. location was the only site that could offer the Foundation private floor space and as much space as the Chairman of the Council considered necessary for his long-range plans. He said further that, because the Foundation envisioned a demonstration center which would be used by children, it was considered desirable to have its offices on a private floor.

An official of the General Services Administration's Public Buildings Service told us that, in comparison with other rental rates paid in downtown Washington, D.C., the rental rate charged for the 1776 Massachusetts Avenue NW. location was reasonable.

The Executive Director of the Foundation told us that a 5-year lease had been entered into by the Chairman of the

Council because the Chairman did not envision the Right to Read program as a short-term program and because its overall goal was to be accomplished by the end of the 1970's. Further the Executive Director told us that the Chairman believed that the Foundation should show results by 1975 in achieving the Right to Read program goal or should discontinue operating.

As of November 24, 1971, one floor had not been used by the Foundation because the plans for the demonstration center were canceled as a result of OE's disallowing the costs associated with the center. In November 1971 the Foundation was trying to sublease this space.

- - - -

The Foundation's overall position on the costs determined to be unallowable by OE was that the Foundation's actions were reasonable and within the scope of the project and had not been taken to circumvent any of the purposes or provisions of the grant agreement.

Indicating that the grant administration procedures of OE may have been inadequate, the Foundation stated:

"While it may have been error not to seek approval of the Grants Officer, it may have been error also for OE not to have clarified the provisions of the Grant/Award in light of the broad statement of the project's purposes incorporated by reference into the Award and it may have been error not to have coordinated the activities of the parties more closely prior to and from the inception of the Grant so as to obtain a common understanding of these broad objectives and the specific provisions."

The OE grants officer, in commenting on this statement, told us that he had met with the Foundation's previous business manager in October 1970 to review the grant provisions and requirements to eliminate any misunderstandings and that he planned a similar meeting with the new business manager. As of November 17, 1971, the grants officer had not met with the new business manager.

CURRENT STATUS OF UNALLOWABLE COSTS AND PROSPECTS FOR REIMBURSEMENT TO GOVERNMENT

The OE grants officer told us that the expenditure of \$9,300 made prior to the grant award and a part of the public relations expenditure of \$113,300 might be permitted to be paid from grant funds because they could have been allowed if prior approval had been obtained. He said that the professional fees and construction costs of \$176,900, however, were not subject to negotiation because they had been incurred in connection with activities not authorized by the grant agreement. Under the second grant agreement, the Federal contribution to the annual salary of the Foundation's Executive Director was limited to \$40,000.

In a June 25, 1971, letter to the Foundation, OE requested that the grant funds used for the unallowable purposes be reimbursed from any non-Federal funds which the Foundation might be able to obtain in support of the Right to Read effort. The Government's prospects for receiving reimbursement for the total unallowable costs ultimately determined by OE appear doubtful. The Foundation is funded almost entirely through its OE grant. Although the Foundation does have the potential for receiving donations, only about \$1,000 in donations were received during the initial grant period.

ACTION TAKEN TO PROVIDE GREATER CONTROL OVER GRANTEE EXPENDITURES

The agreement covering the second grant to the Foundation included certain provisions which had not been included in the initial grant. These provisions, incorporated to provide greater OE control over grantee expenditures, require that

- quarterly fiscal reports on proposed expenditures be submitted to the OE grants officer;
- proposed contracts be accompanied by evidence of substantial competition or by justification for sole-source selection; and

--written approval of the OE grants officer be obtained for budget changes (1) reflecting a significant change in the scope of work, (2) creating significant future fund commitments not previously approved, or (3) creating significant fund shifts (over \$1,000) within the budget categories.

In addition, OE has placed restrictions on the use of grant funds during the second grant period, which prohibit the lease of space in excess of the Foundation's needs and the rental of an automobile. These costs had been allowed under the initial grant.

According to the HEW Grants Administration Manual, the reasonableness of certain items of cost under any grant or contract may be difficult to determine. The manual states that, to avoid subsequent disallowances or disputes based on unreasonableness, it is important that agreements be reached in advance of the incurrence of special or unusual costs. Among the costs listed in the manual on which advance agreements may be important are compensation for personal services, excess facility costs, preaward costs, and public information costs. The Foundation did not seek advance agreement with OE concerning the reasonableness of any special or unusual expenditures incurred under the initial grant.

As stated previously the Foundation entered into a 5-year lease, without OE approval, for two floors of space which OE considered to be in excess of the Foundation's needs. Consequently OE informed the Foundation that, as of January 1, 1972, grant funds could be used for only one floor of rental space. OE determined that this reduction in floor space would result in an annual cost reduction of \$40,358.

The Foundation leased an automobile for local travel for its employees on the basis that the automobile was necessary because taxicabs and other public transportation were not always readily available. OE reevaluated the justification and informed the Foundation that this expense would not be allowed after September 30, 1971. On that date the Foundation terminated its lease for the automobile. The total costs associated with the lease of the automobile

and the rental of garage space during the period January through September 1971 was \$2,100. The Foundation did not employ a chauffeur.

CHAPTER 4

CONFLICT OVER ROLES AND RESPONSIBILITIES

IN RIGHT TO READ PROGRAM

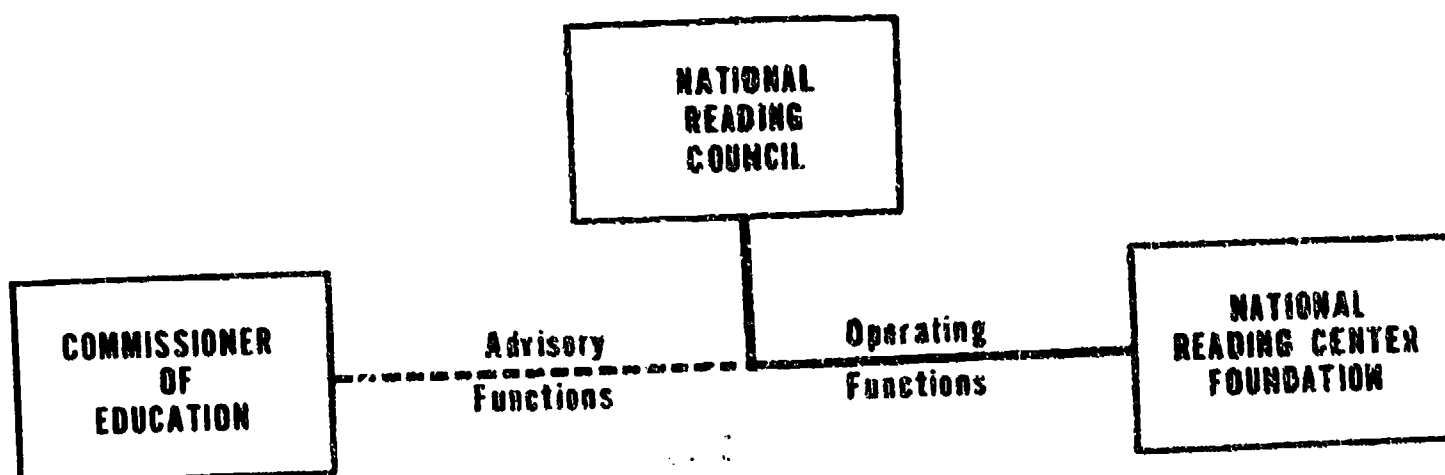
The respective roles and responsibilities of the Council, the Foundation, and OE were not clarified and resolved until July 1971--the last month of the initial grant period.

ORIGIN OF CONFLICT

A small non-Government task force was formed in December 1969 to (1) prepare a 10-year plan, including detailed program objectives, for the Right to Read program and (2) develop an organizational structure for the Right to Read effort. The task force submitted a report to OE in February 1970 that did not include a 10-year plan or detailed program objectives.

The report consisted of an assessment of the Nation's reading problem, a general statement of the Right to Read effort, and an organizational structure for carrying out the effort. The report stated that the Council would advise OE on priorities in the Right to Read program and that the Foundation would coordinate the efforts of contributing organizations, would organize the training of citizen volunteers, would develop public support, and would help the States to undertake similar programs.

The organizational structure proposed in the report and illustrated below shows no direct lines of responsibility between OE and either the Council or the Foundation.



OE's Right to Read program officials expressed their concern to the Commissioner of Education that, under the proposed organizational structure, OE would have little, if any, influence over the activities of the Foundation and that coordination among the parties would be difficult. No action was taken, however, to modify the proposed organizational structure or the stated responsibilities.

An OE Right to Read official said that, because the non-Government task force had not prepared a 10-year plan, OE's Right to Read program officials had prepared a preliminary plan for the national Right to Read effort early in 1970, which was to serve as a basis for the preparation of a detailed 10-year plan by the Council. OE's preliminary plan, however, did not delineate the roles and responsibilities of OE and the Council in the Right to Read program.

EFFORTS TO RESOLVE CONFLICT

The earliest document in OE's files concerning the differences of opinion regarding the respective roles and responsibilities of OE, the Council, and the Foundation was a letter dated December 10, 1970. In that letter OE's Director of the Right to Read program informed the Executive Director of the Foundation that it was imperative that they reach firm agreement on their respective roles to achieve the national Right to Read goal in partnership.

The OE Director of the Right to Read program proposed that the Council be responsible primarily for persuading the public that there is a reading problem and for marshaling and harnessing the resources of the public and private sectors to solve the problem. The Director pointed out that OE had the role of coordinator of the educational community and was responsible primarily for harnessing the resources of the professional sector and for bringing them to bear on the problem.

The lack of coordination between OE and the Council was highlighted by the Acting Director of OE's Office of Priority Management in a December 22, 1970, memorandum to the Commissioner of Education. Specific issues raised in the memorandum were:

- The need for definition of goals for the Right to Read program, including formation of a master plan, and for delineation of roles and responsibilities of OE, the Council, and local organizations.
- The accountability of the Council to OE for its activities.
- The availability of OE management and program resources for the Right to Read effort.

On January 11, 1971, the Commissioner of Education met with the Chairman of the Council and the Executive Director of the Foundation in an attempt to resolve these issues. Steps were taken to initiate development of a unified plan for the Right to Read program to ensure cooperation as well as complementary activity on the part of OE, the Council, and the Foundation.

A joint OE-Council task force was formed to develop specific proposals for a coordinated Right to Read effort. A unified plan by OE, the Council, and the Foundation was to be approved for the purpose of establishing a firm commitment among the parties as to their respective roles and responsibilities. Functional areas of responsibility, similar to those outlined by OE's Director of the Right to Read program in his December 10, 1970, letter to the Executive Director of the Foundation, also were outlined at the January 11 meeting.

Coordination problems continued, however, between OE and the Council. As of May 1971 the following issues still were unresolved.

- Whether the Chairman of the Council should report to the Commissioner of Education.
- Whether the Council should be viewed as an advisory body relating to Federal programs and be obligated to comply with Federal standards and protocols with regard to financial, personnel, and contract matters.
- Whether the Foundation should provide services mutually agreed upon by OE and the Council under a contract rather than under a grant.

- Whether the joint task force formed in January 1971 should be given explicit instructions to define clearly the responsibilities of the Council, the Foundation, and OE.

RESOLUTION OF CONFLICT

On July 15, 1971, a meeting of representatives of the Council, OE, and the Foundation was held to clarify and reach agreement on the roles of each party. The following agreements were reached.

- The mission of the Council and the Foundation would be to generate interest among private noneducational agencies in the Right to Read effort and to enlist their participation in, endorsement of, and support for, Right to Read activities.
- OE, the Council, and the Foundation would participate jointly in developing reading renewal centers which would work with schools to improve their reading programs.
- OE's Right to Read effort would focus on developing programs for underachieving children and functionally illiterate adults and on working with public and non-public schools to improve reading programs.
- OE's Director of the Right to Read program would be made an ex officio member of the Council.

According to the Executive Director of the Foundation, a major source of the difficulties between the Foundation and OE was the constant change of officials in OE. Two Commissioners of Education and one Acting Commissioner have had responsibility for the Right to Read program since its commencement, and the program has had three directors since the initial grant was awarded.

CHAPTER 5

ACCOMPLISHMENTS OF

NATIONAL READING CENTER FOUNDATION

During the initial grant period, the Foundation initiated a tutor-training program and produced a series of brochures, a newsletter, and newspaper articles which focused attention on the Nation's reading problem.

The tutor-training program, referred to as the Ten Million Tutors program by the Foundation, was established to train neighborhood volunteers in methods of tutoring school-age children in reading skills. The program was initiated during the summer of 1971 in five District of Columbia schools. According to the Executive Director of the Foundation, 20-hour training sessions at each school were conducted by three tutor trainers. Other tutor-training programs were held during the summer of 1971 in Iowa and Ohio. About 2,000 tutors were trained in the District of Columbia, Iowa, and Ohio to assist teachers in classrooms during the 1971-72 school year. About \$13,300 of the initial grant funds were used for the tutor-training program.

The Foundation plans to have trained 2,000 tutor trainers in 20 States by the end of fiscal year 1972. Each of these tutor trainers in turn will train about 100 tutors and thereby will provide an estimated 200,000 tutors for schools in September 1972. A similar program is planned for the remaining 30 States in fiscal year 1973 to provide 300,000 more tutors. This initial tutor-training program will train tutors for primary-grade children. Other programs are planned to train tutors for adults, Spanish-speaking people, high school dropouts, and young teens.

The Foundation's Executive Director told us that the Foundation's budget for the second grant had provided \$40,000 for the tutor-training program and that it would cost each State about \$4,500 to \$6,000 to arrange for tutor trainers to attend training sessions.

The Foundation contracted for the preparation of a series of 21 brochures to inform the public about certain

reading problems. These brochures are distributed to Parent Teachers Associations, school systems, educational agencies, and persons attending various Right to Read functions. A newsletter describing the activities of the Foundation is produced periodically and is distributed to Council members, other interested citizens, and school systems; 12 newspaper articles also were prepared for distribution throughout the country.

The brochures, newsletter, and newspaper articles were prepared to encourage reading, to make information available to parents, and to list sources for obtaining reading help. Total grant costs associated with the preparation of these publications amounted to \$17,797.

During the initial grant period, members of the Foundation's staff traveled to many parts of the country in an effort to relate the tutor-training program to established organizations and to stimulate involvement in the Right to Read program. The Foundation also sponsored about six business and industry seminars to generate interest in the program.

CHAPTER 6

CONCLUSIONS

The problems described in this report, specifically those relating to unallowable grant costs and the conflict over roles and responsibilities, could have been minimized if, prior to the award of the initial grant, OE had outlined the activities and objectives of the Right to Read effort to provide a framework in which the Foundation could orient its program. Further, delineation by OE of its program authority and of grantee responsibilities early in the grant period would have provided for a more harmonious and effective relationship between OE and the Foundation.

Actions have been taken to resolve the conflict over the respective roles and responsibilities of OE, the Council, and the Foundation and to provide greater control over Foundation expenditures under the second grant. Action is being taken also to reach agreement on costs to be allowed under the initial grant.

A coordinated effort is needed on the part of OE, the Council, and the Foundation to systematically and progressively achieve the ultimate goal of the Right to Read program, which is to enable every American to achieve during the 1970's a reading level commensurate with his needs. Although OE and the Foundation have agreed orally to implement the 10-year plan prepared in May 1971, such an agreement by OE, the Council, and the Foundation should be in writing to help avoid the types of problems and misunderstandings experienced under the initial grant.

APPENDIX I

NATIONAL READING CENTER FOUNDATION EXPENDITURES INCURRED DURING THE GRANT PERIOD--

AUGUST 1, 1970, THROUGH JULY 31, 1971

GRANT AWARD		\$1,529,535
EXPENDITURES:		
Furniture, fixtures, and equipment	\$ 73,626	
Salaries--administrative and office	168,492	
Salaries--other	8,729	
Office help--service	13,120	
Personnel benefits	25,975	
Insurance premiums	1,781	
D.C. unemployment insurance	2,470	
Taxes--social security	5,426	
Taxes--Delaware franchise	10	
Consultant fees	383,179	
Consultant fees--site improvement	132,747	
Travel expenses--administrative	36,570	
Travel expenses--Council members	17,366	
Transportation--local	2,755	
Rent--office	88,316	
Rent--equipment	10,184	
Conventions and meetings	19,099	
Discussion meetings	1,560	
Promotional material	50,824	
Accounting and legal	20,098	
Research expenses	103,716	
Telephone and telegraph	15,619	
Postage	3,094	
Leasehold improvement	296	
Books and subscriptions	4,653	
Stationery and office supplies	11,906	
Office expenses--other	4,036	
Repairs and maintenance	990	
General expenses	9,090	
Organization and promotion	188	
Shipping expenses	1,056	
Consultant supplies	45	
Tutor-training program (except for consultant fees of \$6,460)	6,838	
Total expenditures	1,223,854	
Deposits and securities	11,986	
Total		<u>1,235,840</u>
UNOBLIGATED BALANCE		<u>\$ 293,695^a</u>

^aThe unobligated balance was planned to be used for the salaries and expenses of Foundation representatives to be located at each of HEW's 10 regional offices for the purpose of coordinating Right to Read efforts. These positions, however, were not established during the initial grant period. This amount was reprogrammed to be used during the second grant period.

APPENDIX II

ALLEN J. ELLENDER, LA., CHAIRMAN
JOHN L. MCCLELLAN, ARK.
WARREN G. MAGNUSON, WASH.
JOHN C. STENNIS, MISS.
JOHN O. EASTON, R.I.
ALAN BIBLE, NEV.
ROBERT C. BYRD, W. VA.
GALE W. MCGEE, WYO.
MIKE MANSFIELD, MONT.
WILLIAM PROXMIRE, WIS.
JOSEPH M. MONTGOMERY, N. MEX.
DANIEL K. INOUE, HAWAII
ERNEST F. HOLLINGS, S.C.
MILTON R. YOUNG, IOWA
KARL E. MUNDT, S. DAK.
MARGARET CHASE SMITH, MAINE
ROMAN L. HRUSKA, NEBR.
GORDON ALLOTT, COLO.
NORRIS COTTON, N.H.
CLIFFORD P. CASE, N.J.
HIRAM L. FONG, HAWAII
J. CALHOUN BOGGS, DEL.
CHARLES H. PERCY, ILL.
EDWARD W. BROOKE, MASS.

THOMAS J. SCOTT, CHIEF CLERK
WM. W. WOODRUFF, COUNSEL

United States Senate

COMMITTEE ON APPROPRIATIONS

WASHINGTON, D.C. 20510

July 14, 1971

Elmer Staats
Comptroller General
General Accounting Office
Washington, D. C.

Dear Elmer:

As you may know on June 28, 1971, the Washington Evening Star published an article concerning the mis-use of \$288,000 out of a \$1,500,000 Office of Education grant to the National Reading Research Foundation.

In view of this reported mis-use of funds, I am requesting that you initiate a complete audit of the entire \$1,500,000 grant to the National Reading Foundation. This audit should include the application procedures, contract requirements and actual uses of these federal monies.

Listed below are the grant and transaction numbers. Should you have any questions, please contact Mr. Hunter Horgan, a member of my staff at 225-5653.

Grant No. - OEG-0-71-0454

Transaction No. - 710E3000

I appreciate your help in this matter.

Sincerely,


William Proxmire, U.S.S.